

HOUSE FINANCE COMMITTEE
April 20, 2021
1:34 p.m.

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CALL TO ORDER

Co-Chair Foster called the House Finance Committee meeting to order at 1:34 p.m.

MEMBERS PRESENT

Representative Neal Foster, Co-Chair
Representative Kelly Merrick, Co-Chair
Representative Dan Ortiz, Vice-Chair
Representative Ben Carpenter
Representative Bryce Edgmon
Representative DeLena Johnson
Representative Andy Josephson
Representative Bart LeBon
Representative Sara Rasmussen
Representative Steve Thompson
Representative Adam Wool

MEMBERS ABSENT

None

ALSO PRESENT

Neil Steininger, Director, Office of Management and Budget, Office of the Governor; Paloma Harbour, Fiscal Management Analyst, Office of Management and Budget, Office of the Governor.

SUMMARY

HB 181 APPROP: SPECIAL; AMERICAN RESCUE PLAN ACT

HB 181 was HEARD and HELD in committee for further consideration.

Co-Chair Foster reviewed the meeting agenda.

#hb181

HOUSE BILL NO. 181

"An Act making special appropriations relating to the American Rescue Plan Act; and providing for an effective date."

1:35:13 PM

NEIL STEININGER, DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET, OFFICE OF THE GOVERNOR, introduced a PowerPoint presentation titled "State of Alaska Office of Management and Budget: House Finance HB 181 ARP Budget Bill Overview," dated April 20, 2021 (copy on file). He noted there were a handful of items not currently included in the budget bill due to a lack of information from the American Rescue Plan Act (ARPA). He explained that the items were included in the presentation for the committee's information. The presentation outlined the reason why the items had not been put forward. He relayed that once additional information had been received from the federal government, the Office of Management and Budget (OMB) would update the legislature and would communicate whether or not the decision to include the items had been made.

PALOMA HARBOUR, FISCAL MANAGEMENT PRACTICES ANALYST, OFFICE OF MANAGEMENT AND BUDGET, OFFICE OF THE GOVERNOR, referenced a three-page handout titled "COVID-19 Response Funding" provided by OMB (copy on file), which provided additional information on many of the direct grants to agencies. She noted there were items listed on page three that were not included in the bill but would be covered in the presentation. She turned to slide 2 of the main presentation related to direct grants from ARPA. She began with grants included in the bill for the Department of Education and Early Development (DEED) including \$2.2 million in institute or museum and library service funds and \$758,700 in National Endowment for the Arts funding.

Ms. Harbour addressed DEED pending items that were not yet included in the bill. The first item was emergency education relief funding. She explained that OMB was awaiting additional guidance on state maintenance of effort requirements pertaining to the item. She reported that OMB had received the requirements the previous day from the U.S. Department of Education. The federal agency had scheduled a call with states later in the week to discuss

the guidance in further detail. She stated that OMB hoped to have additional information shortly.

Co-Chair Foster noted that Representative Carpenter had joined the meeting.

Ms. Harbour continued to review slide 2. The second DEED item not yet included in the bill was funding for the Child Nutrition Program; OMB was awaiting further funding and program information. The bill did not yet include Department of Environmental Conservation (DEC) Low Income Household Water Assistance Program funds. She explained that the program was brand new and still under development by the federal government; OMB was awaiting further information. She moved to the Department of Health and Social Services (DHSS) and highlighted that the bill included funding for the Centers for Disease Control and Prevention (CDC) in the amount of \$22 million for COVID testing and \$32.4 million for COVID vaccinations. The bill also included funding from the Administration for Children and Families in the amount of \$3.4 million for pandemic emergency assistance to provide short-term nonrecurring support to impacted families. Additionally, the bill included \$1.2 million for the Women, Infant, and Children program for benefit improvements.

Co-Chair Foster asked if the items included in the bill were considered restricted and there was no question where the funds could go.

Ms. Harbour replied in the affirmative.

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Representative Wool asked if the presentation was referring to direct grants that went through the state appropriation system and not directly to state agencies.

Ms. Harbour answered that the grant funding was direct to state agencies for a specific program. She elaborated that the funding had specific criteria and where it went was not discretionary. She clarified that the direct grants did not include funding going directly to businesses, individuals, or tribal governments. The presentation and bill did not cover funding sources that did not go through the state budget.

Representative Wool asked for verification that the money under discussion for the direct grant was \$1 billion that went through the state budget and not directly to other agencies.

Ms. Harbour replied in the negative. She clarified that the \$1 billion was the last page of the presentation and OMB was not referring to it as direct agency grants because the funding was more discretionary in terms of where it could go. The money currently under discussion included grants above the \$1 billion.

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Vice-Chair Ortiz looked at the \$22 million for COVID-19 testing on slide 2. He noted that the funding went directly to DHSS. He asked if the funds could be distributed to community airports to fund free testing of visitors to Alaska.

Ms. Harbour responded that a number of the programs had very specific requirements and it would be best to have the agencies administering the programs answer some of the detailed questions. She elaborated that the majority of the testing [under the \$22 million increment] was specific to education testing to help schools reopen. She noted there was some funding for underprivileged individual testing. She would have to look into whether the funds could be used at airports.

Ms. Harbour relayed that the bill did not include anything OMB had already submitted a budget amendment for, specifically related to housing programs.

Representative Josephson asked where the housing amendments had been submitted.

Ms. Harbour answered that the amendments had been submitted to the capital and operating budgets. The administration had submitted amendments for the Housing Emergency Rental Assistance program to Alaska Housing Finance Corporation (AHFC), a mortgage assistance program, and a home choice vouchers program. She believed there were four or five related amendments.

Representative Josephson thought Ms. Harbour had stated the amendments had been submitted through ARPA.

Ms. Harbour clarified that she had meant there were some ARPA items for the housing programs that had been previously submitted as amendments. She noted the items were not included in HB 181.

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Ms. Harbour advanced to slide 3 and continued to review ARPA direct grants for DHSS. She noted that the following funds were estimates. The bill included childcare development fund grants of \$28.4 million, childcare stabilization grants of \$45.5 million, child abuse prevention funding of \$291,000, mental health block grant funding of \$3 million, substance abuse block grant funding of \$4.7 million, Low Income Home Energy Assistance Program (LIHEAP) funding of \$23.7 million, various grants supporting older Americans and their families of \$7 million, and pandemic EBT administrative grant funding of \$768,400.

Co-Chair Foster asked what EBT stood for.

Ms. Harbour replied she believed it was electronic bank transfer [electronic benefit transfer].

Representative LeBon looked at the grants for DHSS and asked about the funding formula within the dollar amounts designated to the specific programs. He asked how the funding allocation was community or population driven.

Ms. Harbour responded that the ARPA funding had specific stipulations. For example, the vaccine funding was split between education funding and underprivileged individuals. She explained that the federal agency administering the program made further allocations.

Representative LeBon looked at the Childcare Development Fund grant on slide 3. He stated that Fairbanks and many communities had a robust childcare program including a variety of private and public organizations providing services. He asked how the money would be spent and used and how it benefitted a current childcare operator.

Ms. Harbour answered that it would likely be best to have the agencies speak to the specific grants. She did not know what formula would be used to distribute the funding.

Representative LeBon stated his understanding that the guidance on how the money would be spent had been received by state agencies. He asked for verification that DHSS had received the information.

Ms. Harbour replied that DHSS had received various levels of guidance on the programs. The department knew there was no significant match requirement tied to the funding; therefore, OMB had put the items in the bill. She did not know if DHSS had received all of the program details yet.

Representative Carpenter thought EBT stood for electronic benefit transfer in regard to the school lunch program.

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Ms. Harbour addressed pending DHSS items not included in the bill on slide 3. She detailed that OMB was awaiting state match requirement guidance for childcare assistance and home and community-based services enhanced federal participation. Additionally, OMB was awaiting funding and program information for the Supplemental Nutrition Assistance Program administrative grant increase.

Co-Chair Foster asked if the pending items were mentioned in the bill as to be determined later. Alternatively, he asked if the items were not referenced in the bill at all.

Ms. Harbour confirmed that the grants were not included [or referred to] in the bill. The items were included in the presentation for the committee's information.

[1:49:33 PM](#)

Ms. Harbour turned to slide 4 and reviewed direct grants included in the bill for the Department of Labor and Workforce Development (DLWD). The bill included higher education emergency relief funds for Alaska Vocational Technical Center (AVTEC) in the estimated amount of \$441,000. She noted that half of the funding would go to students as grants. The bill also included a capital project for the Unemployment Insurance System modernization in the estimated amount of \$6 million. She moved to the Department of Military and Veterans Affairs (DMVA) and highlighted an emergency management performance grant for \$882,300 included in the bill. The bill included federal

transit administration grants in the amount of \$6.6 million for the Department of Transportation and Public Facilities (DOT). She noted the bill did not include anticipated funding from the Federal Aviation Administration (FAA) for airport rescue grants. The administration was awaiting funding information for the item. The bill included \$30.8 million for higher education emergency relief funds for the University of Alaska.

Co-Chair Foster requested to receive a copy of the bill for all members.

Representative Wool referenced the higher education funds. He noted at a previous meeting he had asked OMB about the funding split between the university and students. He remarked that initially students had been forced to leave [due to the pandemic] and were reimbursed for housing or tuition. He wondered if the funding going forward was meant to give students a break on tuition via grants. He was trying to understand the reasoning behind directing the money to students if their semester had not necessarily been disrupted.

Ms. Harbour answered that the funds could go to defray students' costs, whether the costs were incurred for distance learning or for technology upgrades to allow for increased distance learning. She stated that the funds could potentially go towards tuition costs. She was not certain how the university would grant the funding out to students.

Representative Wool asked about the maintenance of effort and noted that the University of Alaska was getting \$30 million in the bill. He asked if OMB was assuming the variance or exemption would be granted.

Ms. Harbour clarified that the higher education emergency relief funds did not require a state maintenance of effort. She explained that the maintenance of effort requirement applied to education funds referenced earlier in the presentation that had not yet been included in the bill. The administration was still waiting for additional information on the maintenance of effort requirement.

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Representative LeBon looked at the Unemployment Insurance System Modernization funds at the top of slide 4. He asked if the state had a need to modernize its unemployment insurance system. He wondered if the funds would default back to the federal government if the state did not have a need to modernize the system. He asked if the state would use the funds for modernization even if it did not have a need to do so.

Ms. Harbour replied that it was definitely a need in Alaska. She detailed that the existing [unemployment insurance] system was old, and modernization would help with transparency, detecting fraud and other things. She elaborated that the grant was a competitive award for the specific purpose; therefore, if the state received a grant it would have to be used for system modernization.

1:54:20 PM

Ms. Harbour moved to slide 5 and addressed two items tied to the Coronavirus State and Local Fiscal Relief Fund (CSLFRF). The first item was for capital projects funding of \$112.3 million. She noted it was a placeholder appropriation at present. She shared that all OMB knew currently about the funding was the language in the [federal] bill stating that the funding was allowable to carry out critical capital projects directly enabling work, education, and health monitoring, including remote options, in response to the public health emergency with respect to the Coronavirus Disease. She reported that initial calls to Treasury indicated the language only applied to broadband projects. She stated that further federal guidance was anticipated by May 10th.

Representative Johnson asked for a repeat of the information related to broadband. She thought ARPA originally included water and sewer as well.

Ms. Harbour complied. She explained that the information about the rest of the CSLFRF funds in the amount of \$1 billion was addressed on the last slide of the presentation. She detailed that one of the uses of the specific funding was on water, sewer, and broadband infrastructure projects. The item on slide 5 was a separate allocation in ARPA specifically for capital project funding to carry out critical capital projects directly enabling work, education, and health monitoring, including remote

options. She shared that Treasury was initially interpreting the language to mean broadband.

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Representative Rasmussen asked if it would include telehealth provisions.

Ms. Harbour did not currently know.

Co-Chair Foster referenced the \$112.3 million in capital projects funding on slide 5. He thought it was funding for water, sewer, and broadband. He surmised that Ms. Harbour was saying the funding was separate from that purpose. He stated his understanding there was a separate bucket that applied to water, sewer, and broadband. He asked for verification that the \$112.3 million was for broadband only.

Ms. Harbour replied in the affirmative. She explained there was a separate \$1 billion in discretionary funding for the state that could be used for water, sewer, and broadband infrastructure. The \$112.3 million on slide 5 was a separate set-aside that OMB had initially thought could be used for more than broadband; however, Treasury was indicating the funding was for broadband only.

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Ms. Harbour continued to review slide 5 and explained that the second item tied to the CSLFRF was \$185.4 million in pass-through funding via the Department of Commerce, Community and Economic Development (DCCED). The funding was for Alaska communities defined as non-entitlement local governments and counties. She detailed that the funding would be passed through [DCCED] as grants based on the allocation methodology in the act and clarified by Treasury.

Vice-Chair Ortiz asked for a definition of non-entitlement local governments and counties.

Ms. Harbour answered that ARPA tied the definition to a federal program. She elaborated for the most part, counties were the same as the state's boroughs. She explained that non-entitlement local governments were cities and/or unorganized communities.

Representative Rasmussen asked for clarification that the funding was direct to nonorganized communities in Alaska. She asked if there was additional funding that went directly to organized municipalities and boroughs.

Co-Chair Foster asked if non-entitlement local governments and counties included villages.

Ms. Harbour answered that the non-entitlement allocation primarily included cities such as Adak City and Akiak City. She expounded that the U.S. Senate provided an initial allocation that would be refined by Treasury before Alaska received the funding. The county allocation included the state's boroughs such as the Aleutians East Borough. She noted the information had been provided to the committee the last time OMB had presented on ARPA; however, she did not have it on hand at the current meeting.

Co-Chair Foster requested a copy of the information.

[1:59:59 PM](#)

Representative Wool assumed it was more of a per capita calculation. He asked if the information was in the bill.

Ms. Harbour answered that the bill did not include any funding that would go directly to a community from the federal government, including the Municipality of Anchorage's allocation. The bill only included funding for communities that would receive their funding through the state.

Representative Wool asked if it was possible to create a flow chart to show funds going through the state and others that went directly to communities. He remarked that some of the funds in the presentation went through legislation and others did not.

Representative Josephson asked about the nexus to COVID and surmised that it likely varied by item. He referenced community pass through items on slide 5 and assumed it was not like community assistance, which was unencumbered and could be used liberally by a community for its own purpose.

Ms. Harbour agreed there were stipulations in ARPA that specified how funds could be spent, which were similar to

the state. She noted that the presentation was about to cover the topic.

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Mr. Steininger turned to slide 6 and addressed CSLFRF state funding uses and restrictions. He referenced Representative Josephson's question and relayed that the pass-through funding to communities was subject to ARPA stipulations outlined on the slide. He noted that communities had more discretion to use the funding for COVID-related items. He read from the slide that specified how the ARPA funds could be used to cover expenses:

A. to respond to the public health emergency with respect to the Coronavirus Disease 2019 (COVID-19) or its negative economic impacts;

Mr. Steininger noted that item A included items benefitting households or businesses impacted by COVID. He read items B and C:

B. to respond to workers performing essential work during the COVID-19 public health emergency by providing premium pay to eligible workers performing such essential work;

C. for the provision of government services to the extent of the reduction in revenue due to the COVID-19 public health emergency relative to revenues collected in the most recent full fiscal year;

Mr. Steininger noted that item C would use a comparison to revenues from FY 19. He read item D:

D. to make necessary investments in water, sewer, or broadband infrastructure.

Mr. Steininger elaborated that item D was infrastructure mentioned in ARPA that was separate from the \$112 million capital project grant. There were two restrictions included in the Act:

A. direct or indirect offsets to a reduction in net tax revenue resulting from changing law, regulation, or administrative interpretation during the covered period that reduces or delays the imposition of any tax or tax increase;

B. deposits into any pension fund.

Mr. Steininger elaborated that under the reduction in revenue restriction, the reduction could not be due to a policy change by the state. Additionally, the \$1 billion could not be deposited into the Public Employees' Retirement System (PERS) or Teachers' Retirement System (TRS) funds. He noted that the capital projects description indicated the capital project funds [of \$112.3 million shown on slide 5] narrowly focused on broadband. He remarked that the federal interpretation was different than OMB had initially understood. He advised members to keep it in mind when interpreting the four guidelines listed on slide 6. The state would be subject to how the Treasury read the guidelines. He remarked that Treasury may read things a bit differently than the state did.

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Representative Rasmussen asked if Treasury would consider employees in retail, grocery stores, and food service to be essential workers.

Co-Chair Foster replied that he would interpret it in that way, but he did not know whether the Treasury would. The administration had included it in a list of questions submitted to the Treasury. He noted the question was also included on a list sent by the National Governor's Association and several other organizations. They had requested a better definition of essential worker and what types of workers it applied to. His initial read would be workers who had been required to work as a result of being deemed essential. He stated it was speculation at present.

Representative Rasmussen stated it would be helpful to better understand the definition of eligible essential worker. She stated an unintentional consequence of how government had responded to the pandemic was workers no longer had the same incentive to go work in some positions such as retail at a grocery store due to the amount unemployment benefits being received. She thought giving a grant to companies who were trying to bring in employees could possibly help offset the unintended consequence. She hoped they would learn more about the topic once the guidance was received.

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Representative Josephson stated that in the Capitol Building there had been some debate over who was an essential worker. He discussed that if the state were to pay premium pay, it would have to follow the federal guideline specifying who qualified as an essential worker, otherwise the state would violate the guideline.

Mr. Steininger agreed. He expounded that the state had to follow the federal guidelines for any of the ARPA funding it received.

Ms. Harbour clarified that the state could be more restrictive than the federal guidelines, but not broader. She explained that if the federal government's definition of essential workers was very broad and the state wanted to focus on retail workers, it could narrow the eligibility, but not broaden it.

Representative Johnson observed there were a couple of missing pages in the presentation. She believed it was being recopied for members.

Representative Carpenter asked for verification the handout showed local pass through funding.

Mr. Steininger agreed.

Co-Chair Foster asked for verification the passthrough funding fell outside of the \$1 billion. He noted it was outside of any discretion the state had [he received a nonverbal affirmative from the presenters].

Representative Wool asked about the premium pay component. He assumed it was a block grant or a pot of money going to an entity that people applied for. He thought the definition of essential workers would likely be fairly broad and would not be limited to healthcare, but would include teachers, grocery clerks, plumbers, utility workers and other. He noted that without the aforementioned workers, the state would have a difficult time functioning. He imagined there would be substantial demand for the funding. He asked if different entities would apply for the funds. He understood the amount was capped at a certain amount per hour, per year. He asked how the distribution worked once the allocation was made.

Mr. Steininger answered that if the state chose to establish an essential worker premium pay concept, it would be determined in the setup of the program. How the distribution would work would depend on how the state structured the program.

2:11:02 PM

Mr. Steininger looked at the CSLFRF state funding categories from Section 1 of the bill on slide 7. Section 1 of the bill covered discretionary funding coming into the state and Sections 2 through 8 included direct grants Ms. Harbour had reviewed. He noted that the five categories and dollar values on slide 7 were not set in stone. He explained that OMB had established the categories as a starting point to determine how to best distribute the funding in excess of \$1 billion coming to the state. He detailed that OMB had looked at different areas and categories of impact to the state that the money could help relieve. The first category was "Protecting Alaskans" centered around individual security including food security and health response that was not covered by some of the direct grants to DHSS. He pointed out that the dollar value shown on slide 7 was bolstered by direct grants for health response. The category included one specific funding item of \$6 million for sexual assault and domestic violence organizations due to an increase in cases during the pandemic.

Mr. Steininger moved to the second category on slide 7 "Alaska Tourism Revitalization" that included \$150 million to support programs designed to help impacted tourism businesses to rebuild the industry that had been hit hard over the past year. The third section was "Economic Recovery and Innovation" and focused on relief to businesses and organizations in addition to investment in future economy and rebuilding out of the economic downturn resulting from COVID. The fourth category "Build Alaska - Infrastructure Investment" was focused on item D of the guidance [on slide 6] for water, sewer, and broadband. He noted that based on the forthcoming federal guidance, it may be possible to do other types of infrastructure investment as well.

Mr. Steininger reviewed the fifth category "General Fund Offset" on slide 7. The category focused on Section C of the bill that allowed the state to fund government services

to the extent of its revenue loss. The section would allow the state to put ARPA funding in the bank to compensate for lost revenue since the beginning of the pandemic. He reported that based on the current guidance, OMB estimated the state could utilize the full \$1 billion for General Fund offset. He remarked that it may get refined as further guidance came in and the state may not be able to utilize the full funding for General Fund offset in one year. He relayed that if there were ideas for use of the funds that did not perfectly fit the federal guidance, there was an option to offset General Fund costs in one place in order to execute on a program that may be better for Alaska's economy.

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Co-Chair Merrick asked if the money came in two tranches, whether it would be up to the legislature to divvy it up between the programs. She used the example of two payments of \$500 million. She asked if the payments had to be divided equally.

Mr. Steininger replied that whether to appropriate all of the money upfront for specific purposes or appropriate some upfront and some later when more information became available was one of the bigger policy questions that the executive branch and the legislature needed to work through. He reiterated his earlier statement that the dollar values [listed on slide 7] were not set in stone. He stated that if half the money came in the current year and half came in the following year, he suggested that the state would likely want to focus the first tranche of money on things that were best to set up soon. For example, the first tranche could be used for workforce development and things that could prepare the state for a possible infrastructure plan from the federal government in the future. He stated that the categories shown on slide 7 would not all be a clean 50/50 split.

Co-Chair Merrick asked about the General Fund offset and why it would be beneficial to do it in the first tranche as opposed to later on.

Mr. Steininger answered it was a good idea to consider the General Fund offset upfront because the state's future revenue projections were higher than they were at present. Based on federal guidance, it was OMB's understanding the

comparison was between current year revenue and revenue in FY 19. He explained that current year revenue for FY 21 was estimated at about \$750 million lower than in FY 19, whereas it was only about \$400 million to \$460 million lower in FY 22. He elaborated that the amount of General Fund offset the state could accomplish in the future appeared to be shrinking. He relayed that one of the questions OMB had submitted to Treasury was whether the state was allowed to count the revenue loss from FY 20 toward the concept of General Fund offset; if so, the lost revenue was greater than \$860 million in FY 20 alone. He stated that with the uncertainty, it was a good idea to focus the General Fund offset in the early stages before revenue increased.

Co-Chair Foster stated that it was possible to split the money in two tranches. He elaborated that the legislature could elect to receive the money in two tranches and it was also possible the federal government would mandate it. He explained that the money could be split over FY21/FY22 and FY23 as one scenario. He asked for verification that the governor's bill would appropriate the full \$1 billion in a multiyear appropriation over FY 21 through FY 24.

Mr. Steininger answered in the affirmative. He explained that primarily for the sake of simplicity, the bill included a multiyear appropriation of the full amount if the revenue came in from the federal government within that appropriation. He noted that the federal government may require the funding to come in two pots and the state should be prepared for that scenario.

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Representative Wool referenced the General Fund offset of up to \$1.019 billion. He asked if it was primarily based on the oil revenue reduction over 2019 and perhaps 2020 that totaled a little over \$1 billion (based on OMB's figures). He asked if the amount of \$139 million listed on slide 7 had been selected as a policy call by the administration.

Mr. Steininger responded, "Roughly speaking, yes." The administration's understanding of the revenue comparison based on the federal guidance was that the state would be able to justify revenue loss well in excess of \$1 billion for the general fund offset. He elaborated that OMB had looked at the state's operating budget to determine where

to offset government services with ARPA funding. Additionally, OMB had identified about \$2.5 billion in annual expenditures that it believed could be offset without jeopardizing match requirements in federal programs. He noted that generally it was not possible to match federal money with federal money. He stated that the \$139 million reflected the remainder of the funding after adding up the other pots of money [shown on slide 7]. One of the other key decisions the state had to contend with was the balance between some of the programs to help build Alaska's economy back out versus helping to offset some of the general fund losses.

Co-Chair Foster referenced the revenue loss. He noted that oil prices and production had been down during COVID. He added that there had been revenue loss in the Commercial Passenger Vessel head tax and in vehicle rental tax.

Representative Wool referenced the Alaska tourism vitalization component on slide 7. He observed that it appeared the state may lose another cruise ship season. He remarked that many businesses would see major impacts as a result. He surmised that certain communities would be hit hard. He asked if some of the funding would go directly to businesses to help them stay afloat. Alternatively, he wondered if the funds were only to promote tourism and adapt services.

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Mr. Steininger answered that OMB had not allocated specific programs under any of the categories. It was currently aiming to lay out a framework to think about how the state was spending the money. As more guidance was received, the state could work on specific programs that could benefit any of the sectors. The Alaska tourism revitalization category included impacted communities dependent on tourism and businesses. He elaborated that part of funds would go towards promotion for a different type of tourist to visit Alaska if there were no cruise ships in the current year. He noted it would not replace all of the loss in economic activity. There would need to be some kind of balance in the programs under the category. The administration was working to develop plans that would fit within each of the categories to share with the legislature and make some decisions on what to move forward. Based on the level of federal guidance received it was a little early to put

specifics out publicly especially because the guidance could change.

Vice-Chair Ortiz had heard from constituents about the hope that ARPA funding would be available for significant revenue replacement for municipalities. He asked if it would potentially fall under any of the categories on slide 7. He asked if some of the \$325 million under the economic recovery and innovation category could go to the effort.

Mr. Steininger agreed and relayed the use specified by Vice-Chair Ortiz was within the guidance as OMB understood it. He elaborated that impacted communities could fall under the categories of tourism revitalization, the economic recovery, and infrastructure investment since there were some communities more in need of water and sewer.

Vice-Chair Ortiz asked if the administration had publicly stated how it felt about using funding from the \$1.019 billion for revenue replacement for municipalities. He asked if the administration was supportive of the idea.

Mr. Steininger answered that he could not speculate without specifics on how the program was set up. He remarked that the current stage was the high level view where the administration was aiming to set priorities and find a balance in the priorities. He stated they were currently in the "no bad ideas" phase. He elaborated that it would be interesting to talk through the details if there were specifics on a proposal.

Vice-Chair Ortiz asked if there was a vision for the mechanics of how the distribution would take place. For example, if the state were to move forward \$325 million in economic recovery innovation. He asked if it would happen through grants coming from agencies in the state.

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Mr. Steininger replied that he believed the state may run the economic recovery and innovation a bit differently than it had under the CARES Act program based on lessons learned from operating the program. Additionally, the need had changed a bit. He relayed that until the administration received more detail on what the federal government had learned from the last go-around, it was difficult to set

specific mechanics. In terms of relief to businesses and organizations, it would likely come in the form of some grant. The requirements of the grant still needed to be worked out.

Co-Chair Foster believed under ARPA that local governments would receive around \$185 million, but there would still be lost revenue of about \$135 million. He explained that the state could come in to backfill with other funding. For example, the loss in cruise ship head tax of around \$48 million and the amount going to local communities was about \$38 million. He detailed that the state could opt to apportion some of the funding it received to help local communities.

Mr. Steininger agreed. He noted that a significant amount of the \$185 million or \$230 million when including the Municipality of Anchorage was based on population, which did not scale perfectly to the lost revenue in the affected communities.

[2:30:01 PM](#)

Representative Rasmussen looked at the economic recovery and infrastructure investment categories on slide 7. She referenced a presentation the previous week from Meera Kohler with the Alaska Village Electric Cooperative. She recalled that Ms. Kohler had suggested a possible appropriation of \$5 million to \$10 million for an energy study to look at a larger scale energy project. She asked if the study could fall under the categories.

Mr. Steininger confirmed that the study could fall under economic recovery, infrastructure investment, or the protecting Alaskans categories. He noted that the affordability and security of the state's electrical infrastructure was a protection of individuals at its root. He relayed there was significant overlap in terms of what could fit into each of the categories, which were loosely defined.

Representative Rasmussen referenced a memorandum issued on December 16, 2020 from the acting director of the Cyber Security and Infrastructure Security under the U.S. Department of Homeland Security. She detailed that the memo followed the essential worker guidance issued in August 2020 and provided very detailed information in terms of

essential workers. She asked if it was likely for some of the categories to be included.

Mr. Steininger was unfamiliar with the memo and could not speculate as to how it would tie to the federal guidance.

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Representative Rasmussen read from the first paragraph of the memo:

The current version of this guidance, Version 4.0 was released in August 2002. This guidance is intended to help state, local, tribal, and territorial officials and organizations protect their workers and communities and ensure the continued safe and secure operation of critical infrastructure. It can also be used to begin planning and preparing for the allocation of scarce resources used to protect essential workers against COVID-19.

Representative Rasmussen thought the memo may be a good starting point to look at because it was 23 pages and related to essential workers.

Representative Josephson looked at the categories on slide 7 and asked for verification they were OMB's own subcategories. He asked for verification that the subcategories were not created by the federal government as in the CARES Act. He listed several categories specified in the CARES Act that had been strongly recommended tranches such as small business relief and the payment protection plan.

Mr. Steininger answered in the affirmative. The information on slide 7 was a product of the state looking at how to organize the funding and how to wrangle all of the various ideas coming from numerous stakeholders on how to use the \$1 billion. The goal was to try to organize the funds into tranches to help with the evaluation of the ideas and the prioritization in order to use the funding for the maximum benefit of the state.

Representative Josephson stated that the administration had a reputation for finding every opportunity to cut General Fund spending. For example, the FY 22 budget paid oil tax credits with Alaska Industrial Development and Export

Authority (AIDEA) dollars. He referenced Mr. Steininger's testimony that it was possible to offset eight or nine times more than the amount shown on slide 7 and free up General Fund money for the future. He observed that instead, the administration's approach was to view the state as 730,000 Alaskans and not as an institution. He looked at it as less selfish for the state as a government and more beneficial to the people. He asked if his remarks accurately reflected the administration's perspective on how to spend the \$1.1 billion.

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Mr. Steininger answered that it was a fairly fair way to characterize how the administration had put the initial allocations out. There was a balance between the state as an institution and the opportunity it provided the state to retain money in the Constitutional Budget Reserve (CBR) and General Fund. In addition to the responsibility to care for all Alaskans. The administration was trying to strike the balance in the use of the funding. He noted that finding the balance would be the result of a conversation with the legislature as well. He relayed that the administration was not married to the proposed allocation. He suggested an option was a balance where more money was retained in the General Fund to reduce General Fund expenditures. The administration wanted to avoid allowing the windfall to hide the structural problems in the state. He stated that even if the state went with the full \$1 billion of available offset, it was very important not to use the money with the intent of delaying the state's other fiscal situations. The administration had chosen a bit more of a balance towards assisting the Alaskans who had been impacted by COVID and not just the state government.

Representative Josephson stated that even though the proposal would offset more than the legislature may be inclined to do and help others with immediate needs, the legislature had been stymied other than percent of market value (POMV) for years at advancing a fiscal plan. He stated that given that there was no willingness to reach agreement on a fiscal plan, one concern was even though the state could hold onto the funds and use them to fully offset, it also had benefit by forestalling imposition on the public at some future year in the form of taxation or a smaller dividend.

Mr. Steininger agreed it was not a cut and dry situation. He stated that while it had been a long road trying to work towards a sustainable fiscal plan, he wanted to avoid the \$1 billion further delaying the development of a plan.

Representative Johnson looked at item B on slide 6 and asked if correctional officers were considered essential workers and eligible for premium pay funding.

Mr. Steininger answered that correctional officers were a presumptively eligible class of state employees for the offset of salary costs under the CARES Act. He assumed they would likely be considered essential workers under ARPA as well.

Representative Johnson asked for verification the administration anticipated ARPA money going to the Department of Corrections (DOC).

Mr. Steininger answered that it would be an eligible cost. He clarified there was currently no proposal to provide premium pay to eligible state workers.

Representative Johnson asked if the funds had been distributed to DOC under the CARES Act.

Mr. Steininger answered that CARES Act dollars had been used to cover payroll costs for state troopers who were another presumptively eligible class of employee; however, the funds had been used to offset General Fund expenditures. He clarified that no additional pay had been given to the employees.

Representative Johnson asked for verification that the administration had not directed substantial CARES Act funding to DOC.

Ms. Harbour replied that funding had been directed to DOC. She detailed that the administration had offset the department's FY 21 expenses for the population management allocation, which included correctional officer salaries. She clarified that it was strictly offsetting the General Fund expenses on the costs. She explained that the CARES Act could offset the salary and benefits the state normally paid those employees, which the administration had done in order to free up unrestricted general funds (UGF). She highlighted that under item B [on slide 6], it would be

necessary to set up a program to pay the employees more and ARPA could then reimburse the state for the cost. The administration had not yet developed the option as a proposal.

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Representative Johnson asked for verification there had been no premium pay for correctional officers that would fall under item B [on slide 6].

Mr. Steininger agreed.

Representative Johnson highlighted there had been \$50 million under the CARES Act for nonprofits. She asked if the administration was aware of any set-aside for nonprofits under ARPA.

Mr. Steininger replied that the administration had not proposed any specific nonprofit relief within the fiscal relief state funding categories; however, the programs would fall under the economic recovery and innovation category [on slide 7] within the relief to businesses and organizations impacted by the pandemic.

Representative Johnson noted that the governor had spoken about food security a number of times. She asked where it would fall under the bill if it were to be included.

Mr. Steininger answered that the administration had been collecting ideas regarding food safety from the departments. He relayed that food security would fall under the protecting Alaskans category [on slide 7]. The administration did not have any specifics to release at present because it was still trying to determine how to tailor a program that would fit within the guidelines. He confirmed that food security was an interest of the administration.

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Co-Chair Foster referenced Representative Josephson's comments related to the state's fiscal challenges. He asked if it was safe to say the governor's proposal for the ARPA funds did not increase the state's budget. For example, if DOC had an annual budget of \$100 million, the administration may be replacing \$10 million of the total

with ARPA funding, but it was not increasing the department's overall budget. He stated that perhaps the department's annual budget had increased slightly because more had been spent on vaccinations for inmates and physical care. He asked for verification that overall, the administration's goal was to avoid increasing the budget.

Mr. Steininger agreed. He believed slide 8 went into more detail on the administration's proposal to offset general funds. He stated that administration did not want to use the one-time federal funding to generate more programs the state would have to pay for in the future. He elaborated that there needed to be clarity that when the money was deployed it was a short-term relief for one-time or short duration projects.

Mr. Steininger turned to slide 8 and detailed that Sections (f) and (i) were related sections in the bill. One of the sections was a \$120 million unallocated federal increment and the other was a corresponding unallocated decrement of \$120 million. He explained that when areas in the operating budget were found where General Fund expenditures could be offset, the specific General Fund budget would be reduced and the federal funds budget would be increased, resulting in a net zero change. The two unallocated increments would have to be allocated in the same place to avoid increasing a budget with the ARPA funding.

Mr. Steininger continued to review slide 8. He detailed that Sections (f) and (g) included the remainder of the \$139 million. He highlighted that cruise ship head tax decreased dramatically down to zero as a result of COVID. There were other similar funds in the state budget that had created significant holes due to low collections that were not UGF. The administration had set aside \$19 million of the General Fund offset for revenue collections for designated general fund (DGF) fund sources or other restricted revenue sources. He noted that priority would be given to areas where there would be significant impacts to programs if the revenue was not backfilled.

Mr. Steininger highlighted Section 9 of the bill on slide 8. He noted that Section 9 was a nonstandard section that was different than something typically in appropriation bills. He explained that because the federal guidance was anticipated late in the appropriation process and it may take the state time to interpret and understand the

language, there would be some uncertainty around how the money was to be allocated. He communicated the desire to have specific appropriations for the ARPA funding in the final appropriation bill. He noted that the more specific the budget was and the more guidance the legislature gives the executive branch on how to deploy the funding, the more the state's hands would be tied if the federal guidance changed. Section 9 would utilize the General Fund offset concept to ensure a program, if found unallowable by the federal guidance, could be fulfilled using General Fund dollars. He explained that the General Fund dollars would then be backfilled with ARPA funding. He detailed it would be a net zero to the state's bottom line and would avoid getting into compliance issues with the federal government.

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Representative Wool referred to Sections (f) and (i) on slide 8. He asked if the administration could have used FY 22 instead of FY 21. He wondered why the administration was using ARPA funds for the FY 21 budget.

Mr. Steininger responded it was the administration's understanding that ARPA funding could be used on an expenditure occurring after March 3. The administration believed there was more opportunity for General Fund offset in FY 21 than in FY 22. He elaborated that if the General Fund offset amount increased, it would be necessary to reevaluate which fiscal year to apply it to and perhaps spread the amount across two fiscal years.

Representative Wool asked if it was based on the lost oil revenue from the particular year. He acknowledged that Mr. Steininger was nodding his head in agreement. He pointed out that the amount was \$120 million [shown at the top of slide 8], while the lost revenue was \$700 million in FY 19 and \$400 million in FY 20. He observed there was significant latitude. He thought it would be allowable to use the funds in FY 22 since the guidelines were coming out May 10, 2021.

Mr. Steininger thought it was possible the funds could be used in FY 22. He noted there was a risk that if revenues increased substantially in FY 22, it may not be possible to offset nearly as much General Fund expenditure in that year.

[2:52:05 PM](#)

Representative Josephson referred to page 2 [of HB 181], subsections C, D, and F. He stated that the sections stuck him as ambiguous. He observed that in total the amounts added up to a substantial part of the \$1.1 billion. He assumed the items were placeholders while the administration was trying to figure out what ARPA would award the state. He interpreted the language to indicate the legislature should appropriate the funding and the administration would decide.

Mr. Steininger replied that the subsections A, C, D, and E were placeholders to start the discussion. The administration anticipated that the legislature would pass much more specific appropriations that were tailored towards programs that were homed in on over the coming weeks.

HB 181 was HEARD and HELD in committee for further consideration.

Co-Chair Foster thanked the presenters. He reviewed the agenda for the following day.

ADJOURNMENT

[2:54:10 PM](#)

The meeting was adjourned at 2:54 p.m.